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Acquisition Reform:

Spare Parts

ALT/PLT Reduction

BACKGROUND

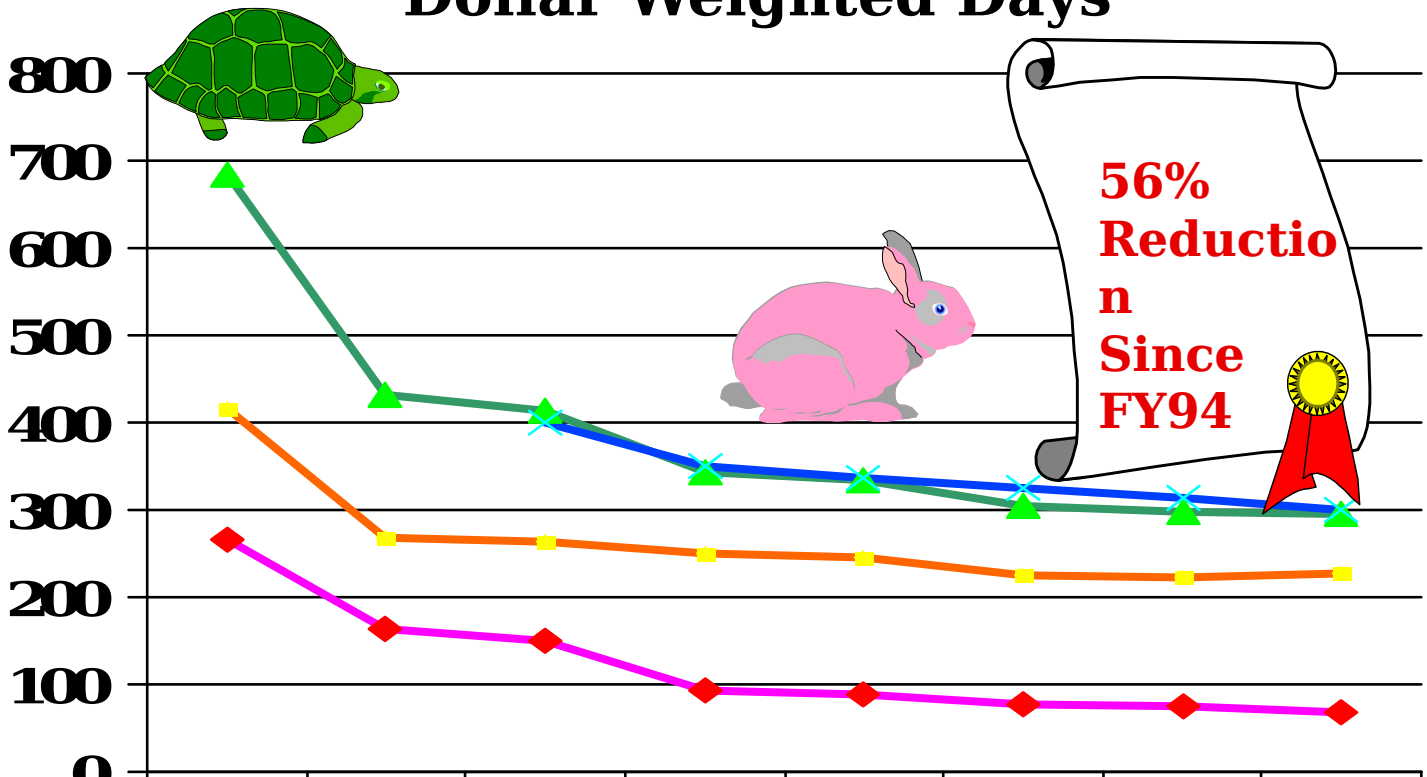
- **FY94 - DODIG & GAO reported that long lead times were causing excessive inventory investment on secondary items.**
- **Since FY95, HQ, AMC has chartered an IPT to reduce lead times.**
  - **Quarterly meetings and monthly VTCs to share ideas among ICPs.**
  - **Last meeting included reps from AF, Navy, DLA and DCMC.**
- **Savings are generated by reducing our inventory of spare parts. The one time sell-off to lower inventory levels is used to reduce prices of spare parts.**
- **AAA has estimated we achieved savings of $199.7M by reducing ALT/PLT from 683 to 300 dollar weighted days.**

DEFINITIONS

- **ALT (Administrative Lead Time) - Days from the date of the requirement (PWD Date) to contract award.**
- **PLT (Production Lead Time) - Days from contract award to the first significant delivery.**
- **Dollar Weighted Days - A demand and unit price driven average of all spares NSNs we buy.**
  - **Formula used is I/A/W DOD 4140.1-M, “Secondary Item Stratification Manual”**
- **RDES (Requirements Determination and Execution System) - AMC’s inventory management system.**
  - **Generates a requirement whenever a reorder point is reached.**
  - **Reorder point includes parts needed to cover ALT/PLT.**
  - **Lower ALT/PLT reduces reorder point.**

AMC ALT/PLT DAYS

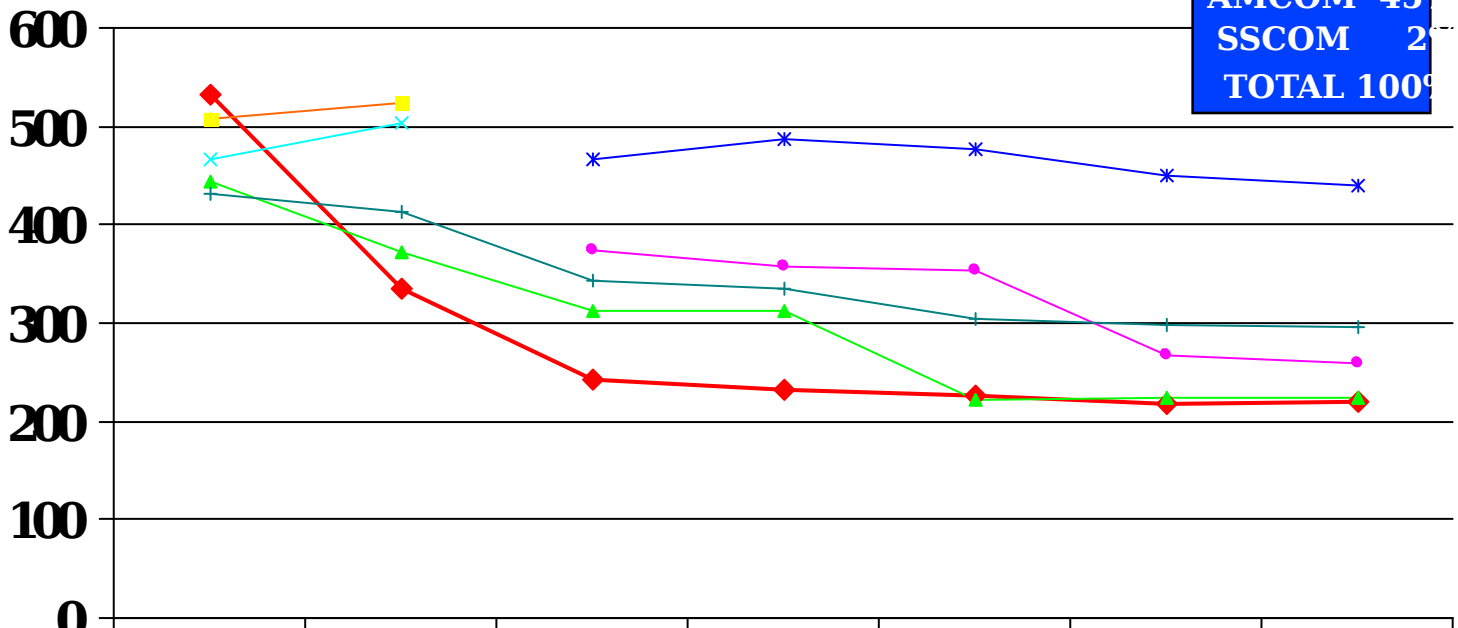
Dollar Weighted Days



	FY94	FY95	FY96	FY97	1Q98	2Q98	3Q98	4Q98
ALT	267	164	150	94	88	78	75	68
PLT	416	268	263	249	246	226	223	227
TOTAL	683	432	413	343	334	304	298	295
GOAL			400	350	337	325	313	300

DOLLAR WEIGHTED DAYS BY ICP

ICP % OF TOTAL	
TACOM	26%
CECOM	27%
AMCOM	45%
SSCOM	2%
TOTAL	100%

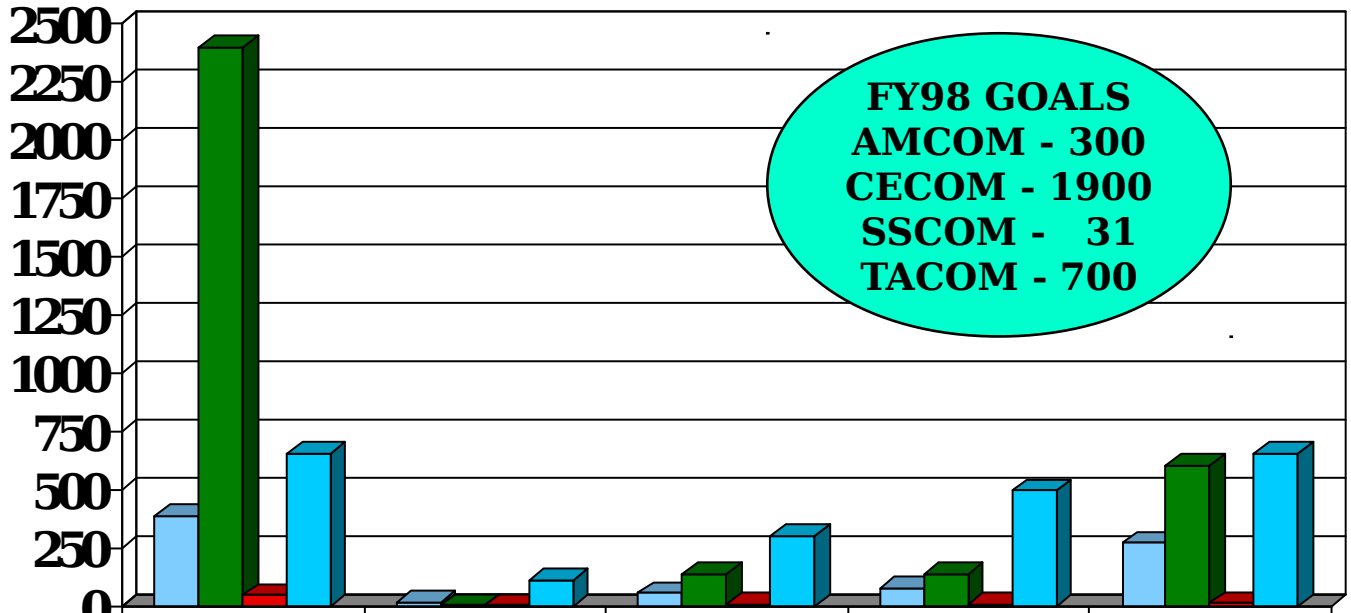


	4Q95	4Q96	4Q97	1Q98	2Q98	3Q98	4Q98
TACOM	533	335	242	233	226	218	219
MICOM	507	525					
CECOM	444	372	312	312	222	225	225
ATCOM	467	504					
AMCOM			466	487	476	451	439
SSCOM			375	357	354	267	258
TOTAL	432	413	343	334	304	298	295

KEY TECHNIQUES

- **Flexible Long-Term Contracts**
  - **Use RDES to project buys**
  - **Similar NSNs are grouped together (i.e. sprockets at TACOM).**
  - **Duration: 3-5 years.**
  - **Range pricing provides flexibility.**
  - **By using electronic ordering with item managers as ordering officers, ALT can be reduced to one day.**
  - **Can reduce PLT by allowing vendors to buy materials ahead of schedule. Also facilitates better production planning.**
  - **Metrics have been established (See next 3 slides).**

NSNs ON LTC

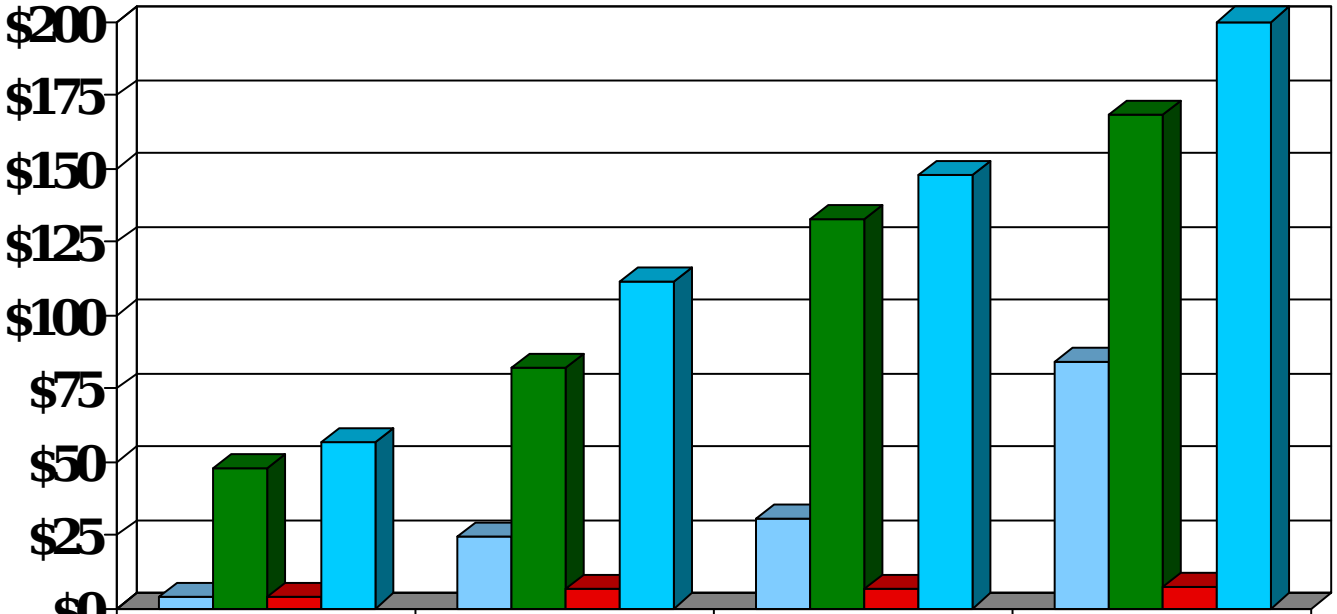


	FY97 TOTALS	1st QTR FY98	2nd QTR FY98	3rd QTR FY98	4th QTR FY98
AMCOM	384	13	52	74	270
CECOM	2400	1	134	135	603
SSCOM	44	1	5	7	9
TACOM	655	112	297	495	655

FY98 data is cumulative

AWCF $'s ON LTC

$ IN MILLIONS

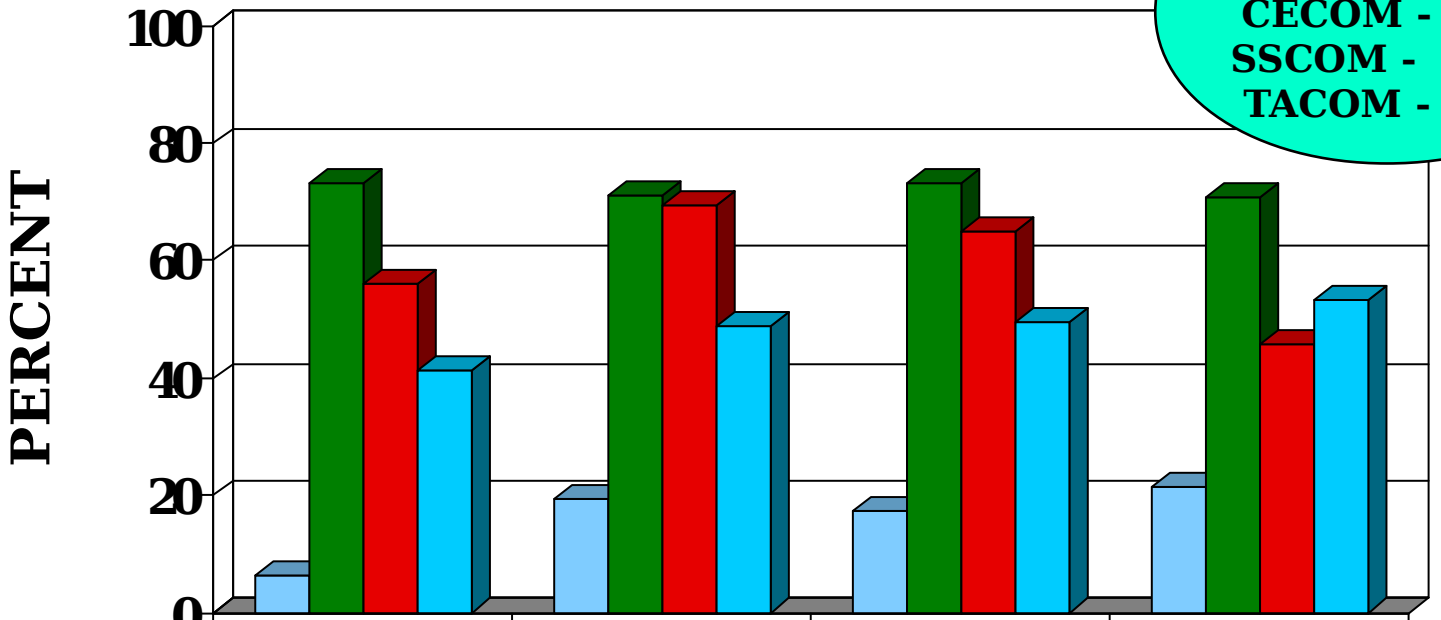


	1st QTR FY98	2ND QTR	3rd QTR	4th QTR
AMCOM	$3.8	$24.1	$30.6	$84.0
CECOM	$47.7	$82.0	$132.8	$167.9
SSCOM	$3.7	$6.7	$6.8	$6.9
TACOM	$56.3	$111.3	$147.3	$202.2

Data is cumulative

% OF AWCF ON LTC

FY98 GOALS
AMCOM - 20%
CECOM - 75%
SSCOM - 75%
TACOM - 50%



	1st QTR FY98	2ND QTR FY98	3rd QTR FY98	4th QTR FY98
AMCOM	6.2	19.4	17.2	21.3
CECOM	73.0	71.0	73.0	70.6
SSCOM	56.1	69.2	64.8	45.8
TACOM	41.4	48.9	49.5	53.1

Data is cumulative

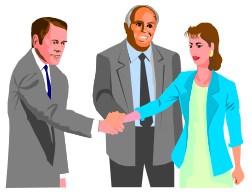
KEY TECHNIQUES

- **Closed Tech Loop**
  - **Use RDES to project buys**
  - **Engineers, quality assurance, packaging, transportation and production specialists prepare the Acquisition Requirements Package prior to the actual requirement (before ALT begins).**
  - **JEDMICS allows for efficient updating of TDPs.**
- **Direct Vendor Delivery**
  - **Vendor delivers items directly to users as required.**
  - **Items are manufactured in advance, allowing for PLT as low as a few days.**
  - **Suited to commercial items where distribution systems exist, such as tires and batteries.**
- **Database Scrubs**
  - **Review high impact items to ensure lead times reflect improved processes.**
  - **Savings are realized faster by not waiting for the next buy.**

KEY TECHNIQUES

- **Multifunctional tiger teams at each ICP ensure effective, coordinated lead time reduction efforts**
- **Automated tracking systems are used for pre-award and post-award contract management.**
- **Other contracting initiatives in our tool box include;**
  - **EC/EDI**
  - **Price analysis versus cost analysis for sole source contracts.**
  - **ALPHA contracting - Proposal preparation, evaluation, and negotiation are done concurrently by KTR/GOV'T IPT.**
  - **Oral proposals in source selections when award will be based on price and other factors.**

PLT INITIATIVES



- **PLT is 75% of our lead time and is primarily controlled by industry.**
- **Industry letters were sent asking for ideas and commitment to reducing PLT. Meeting at NDIA. PLT IPT Subgroup.**
- **<u>Negotiations</u>- PLT should be an item for negotiation. Break the cycle of required delivery dates turning into actual delivery dates turning back into required dates. . . . . .**
- **<u>Best Value Lead Time Reduction</u>- Include delivery schedule as an evaluation criteria where it makes good business sense.**
- **<u>Long Lead Items</u>- Consider contracting strategies for advance funding and/or pre-positioning.**
- **General Wilson letter submitted for NDIA magazine challenging industry to reduce PLT.**